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FISCAL IMPACT STATEMENT

LS 7041 | **NOTE PREPARED:** Jan 9, 2005
BILL NUMBER: HB 1811 | **BILL AMENDED:**

SUBJECT: State Funded Textbooks.

FIRST AUTHOR: Rep. Porter | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
DEDICATED
X FEDERAL

Summary of Legislation: The bill abolishes the textbook rental program for public school students. The bill expands the definition of "textbook" to include materials used in the instruction of students. The bill requires school corporations to establish and appropriate money from a textbook fund to purchase all needed textbooks for loan without charge to students of the corporation. The bill provides an annual state textbook grant equal to $95 multiplied by the average daily membership (ADM) of a school corporation, and requires the deposit of grant funds in the textbook fund. The bill provides transitional procedures. The bill makes a technical correction.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Textbook Grants*- School corporations would be eligible for a state grant per ADM of **$95**. The projected costs of these grants to public schools would be approximately $46.4 M in CY 2005, $92.9 M in CY 2006, and $93.2 M in CY 2007. The state fiscal impact would be $92.9 M for FY 2006, $93.1 M for FY 2007 and $93.2 for FY 2008.

The amount of textbook reimbursement for nonpublic schools was $235,876 for FY 2004**.**

The bill increases the calendar year cap for tuition support by an additional $46.45 M in CY 2005 to cover some of the proposed textbook grants to public schools.

Elimination of Textbook Reimbursement- *Background*: The School Textbook Reimbursement Contingency Fund provides school corporations and accredited nonpublic schools reimbursement from the Department of

Education for a portion of the costs incurred during a school year in providing classroom instruction to children who meet the federal free and reduced lunch standards. Previous to 1999-2000 the program only provided assistance on behalf of students meeting free lunch standards. The appropriation to the Textbook Reimbursement Account for FY 2005 is $19.9 M.

State Share: School corporations and accredited nonpublic schools can receive 20% of the cost of textbooks as listed on the state adoption list and 100% of the cost of workbooks that accompany adopted textbooks. Reimbursement is also made at 100% for consumable textbooks which are state-adopted. The cost of textbooks used in gifted and talented education and special education is reimbursed based on amortization of the book over the years it is to be used. Lastly, developmentally appropriate instruction material for Grades K-3, laboratories, and children's literature programs are reimbursed at 100%.

Local Share: The school corporation shall pay the balance after state reimbursement for school books, supplies, and other required class fees for students who qualify under the federal free and reduced lunch provisions. The nonpublic school has no legal responsibility for paying the balance.

Requirements for Participation: The school corporation or accredited nonpublic school must file a claim with the Department of Education before November 1 of the current school year. The claim must include the number of eligible students and the associated costs for textbooks, consumable textbooks, and workbooks. The claim must have included with it copies of all filed and approved applications for free and reduced lunch recipients. The approved applications must include data required by the Family and Social Services Administration (FSSA) with regard to Temporary Assistance to Needy Families to be considered by the Department of Education for reimbursement under this program.

Extent of Participation: In 2003-2004 school year, 293 corporations and 153 nonpublic accredited schools participated.

Distribution: Funds are distributed in April of each school year. In the event there are funds available, a second distribution based on supplemental claims may be made later in the spring. If the amount of reimbursement requested exceeds the amount appropriated, the Department of Education shall proportionately reduce the amount of reimbursement to each school corporation and nonpublic school.

Potential Impact on the TANF Block Grant Program- The elimination of the Textbook Rental Program may impact the Temporary Assistance for Needy Families (TANF) program. The state is required to meet a specified maintenance of effort (MOE) level in order to qualify for the federal TANF block grant of approximately $200 M annually. Indiana's annual TANF MOE obligation is approximately $120 M. FSSA meets this obligation by expending state funds appropriated for this purpose and by claiming expenditures from other state agencies that meet the purposes and requirements of eligible TANF MOE expenditures.

FSSA has been able to include as MOE about $11.8 M for FY 2004 of the state expenditure for textbooks described above, given it is an expenditure targeted at the low-income population. However, since the proposed textbook grant program is targeted at the general student population, the state expenditure will not qualify as an MOE expenditure, thus requiring either additional expenditures in another program or reclassification of existing, but unidentified, expenditures as MOE. (The reclassified funds, if qualifying, must also demonstrate an increase in expenditures from the TANF base year. Only the increase in funds can be included as meeting the TANF MOE requirement. For this reason, the FSSA cannot count the entire $19.9 M textbook expenditure described above as MOE.) Actual aggregate MOE expenditures for FY 2003 were $113.5 M and $122.5 M in FY 2004. The FSSA reports that Indiana met its obligation in both fiscal years.

Poor Relief/Reduction of PTRC- With the changes in tax law by HEA 1001-2002(ss), the state currently pays 16.2% of the Property Tax Replacement Credit (PTRC) on Poor Relief levies. The reduction in the Poor Relief levy explained under local revenues will result in a projected savings to the state paid by PTRC of $23,300 in FY 2006 (16.2% of $144,000). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Therefore, any reduction in PTRC reduces expenditures from the state General Fund.

The following table illustrates the potential net cost to the state regarding the provisions of this bill assuming projected levels of PTRC and textbook appropriations that continue beyond the biennium at the FY 2005 level.

FY	Textbook Grants	Elimination of State Appropriation for Textbooks	Less: Reduction in PTRC	**Net Cost***
2006	$92.9 M	($19.9M)	($0.023 M)	**$72.9 M**
2007	$93.1 M	($19.9 M)	($0.020 M)	**$73.2 M**

*As described above in the TANF section, the net cost to the state described in the table could increase by up to $11.8 M per fiscal year if additional expenditures in another program are required. However, reclassification of existing, but unidentified, expenditures could mitigate the net increase.

Explanation of State Revenues:

Explanation of Local Expenditures: School corporations may have additional funds to spend if revenue from these state grants exceeds the current funding sources as explained below.

This bill would require that school corporations pay for textbooks regardless of whether a state appropriation is made.

Explanation of Local Revenues: School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the Federal Free and Reduced Lunch Program, and financial assistance from township trustees (Poor Relief). As proposed by this bill, school corporations would be eligible to use the state grant of $95 per ADM instead of the above sources. In FY 2004, schools collected revenue of $58.4 M in textbook rental fees from students.

State Agencies Affected: Department of Education, State Board of Tax Commissioners.

Local Agencies Affected: School corporations.

Information Sources: Department of Education ORACLE Data Tables; Patty Bond, Department of Education; William Bogard, Family and Social Services Administration.

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